



IPSCO

ANNUAL REPORT

1970

File

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

TOP LEFT

Last year IPSCO produced 180,457 tons of "IPSCO Fine Grain" steel. During the first quarter of the current fiscal year, the melt shop has been operated at the new capacity rate of 210,000 ingot tons per year. IPSCO produces steel using the electric furnace process exclusively, which results in a cleaner steel having more consistent chemical and physical properties.

TOP CENTER

More than one hundred million feet of IPSCO high pressure transmission line pipe is in service throughout Canada and in several areas of the United States. IPSCO pioneered the use of thin wall pipe using high strength steels. This has resulted in savings of millions of dollars to line pipe users over the last decade.

TOP RIGHT

Last year the rolling mills at IPSCO were utilized to 35% of capacity. Increased steel capacity, available during the current year, will permit greater utilization of rolling mill capacity. Controlled temperature rolling, X-ray gauge control and a new method of "Laminar Flow" cooling results in the consistent production of "IPSCO Fine Grain" steel.

DESCRIPTION OF FRONT COVER PHOTOGRAPHS**BOTTOM LEFT**

IPSCO ERW casing has been run in 5,000 oil and gas wells in Canada and the United States. Produced in sizes from 4½" to 10¾" diameter, IPSCO ERW casing provides uniform wall thickness in API grades J-55 and H-40. Stocks of casing are maintained at locations convenient to the customer and as new areas open up additional stocking points are established.

BOTTOM CENTER

Teeming of molten steel into ingot moulds is a spectacular operation in the melt shop. Ingot sizes vary from seven to seventeen tons with the trend towards larger ingots since this results in improved productivity at all stages of the manufacturing process. After cooling, the mould is stripped from the ingot and the ingot is either transferred to inventory or "hot charged" into the soaking pits.

BOTTOM RIGHT

IPSCO large diameter spiral weld pipe features superior roundness and straightness in continuous 80 foot lengths, important qualities which provide economies in pipeline construction. IPSCO was the first company in North America to produce spiral weld pipe to API specifications for use in high pressure oil and gas pipelines.

**INTERPROVINCIAL
STEEL
AND
PIPE
CORPORATION
LTD.**

DIRECTORS

D. R. ANNETT, Toronto.....	President, Annett Partners Limited
D. S. DOMBOWSKY, Regina.....	Deputy Provincial Treasurer, Govt. of Sask.
W. M. ELLIOTT, Q.C., Regina.....	Partner, MacPherson, Leslie & Tyerman
J. V. KING, Regina.....	President, Continental Construction Ltd.
R. B. LOVE, Calgary.....	Partner, Macleod, Dixon, Burns, Love, Leith & Lomas
HUGH A. MARTIN, Vancouver.....	President, Western Construction & Engineering Research Ltd.
C. S. McLEOD, Regina.....	Executive Vice-President, Western Tractor Ltd.
D. McPHERSON, Regina.....	President, McPherson & Thom Ltd.
A. HOADLEY MITCHELL, Edmonton.....	President, Mitchell & Associates Ltd.
G. P. OSLER, Toronto.....	President, Unas Investments Ltd.
F. E. SHAW, Sarnia.....	Interprovincial Steel and Pipe Corporation Ltd.
J. N. TURVEY, Regina.....	Interprovincial Steel and Pipe Corporation Ltd.

EXECUTIVE OFFICERS

F. E. SHAW.....	Chairman of the Board
J. N. TURVEY.....	President
J. D. MACLENNAN.....	Vice-President - Finance
L. G. WELCH.....	Vice-President - Sales
B. E. YEO.....	Secretary
W. H. BOULDING.....	Treasurer

REGISTRAR AND TRANSFER AGENTS

Common Shares.....	}.....MONTREAL TRUST COMPANY
Preference Shares.....	
First Mortgage Sinking Fund Bonds (Series A).....	
First Mortgage Sinking Fund Bonds (Series B).....	
First Mortgage Sinking Fund Bonds (Series C).....	
Convertible Debentures.....	CANADA TRUST COMPANY

OFFICES

Head Office and Plant Location: P.O. Box 1670, Regina, Canada

Sales Offices:

Regina — Head Office

Vancouver — 1455 West Georgia St.

Calgary — 2710 London House

Winnipeg — 870 Bradford St.

Edmonton — 702 Centennial Building

Toronto — Ste. 828, 67 Yonge St.

IPSCO

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

14TH ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 1970

HIGHLIGHTS OF THE YEAR (IN THOUSANDS EXCEPT AS INDICATED*)

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Sales	\$26,672	\$20,483	\$15,515	\$14,658	\$17,329	\$17,969	\$13,304	\$12,948	\$10,993	\$ 7,158
Profit before Depreciation & Deferred Income Tax.....	4,570	2,038	1,332	2,372	4,179	3,555	2,434	2,796	506	(1,197)
Provision for Depreciation.....	1,095	990	917	770	753	751	633	586	—	—
Net Profit before Deferred Income Tax.....	3,475	1,048	415	1,601	3,426	2,803	1,801	2,210	506	(1,197)
Deferred Income Tax.....	1,712	514	—	—	—	—	—	—	—	—
Net Profit after Deferred Income Tax.....	1,763	534	—	—	—	—	—	—	—	—
Net Profit per Share										
— Before Deferred Income Tax *	\$ 1.16	\$.31	\$.09	\$.51	\$ 1.17	\$ 1.02	\$.67	\$.87	\$.20	\$ (.46)
— After Deferred Income Tax *	.56	.13	—	—	—	—	—	—	—	—
Number of Common Shares.....	2,859	2,859	2,849	2,847	2,833	2,740	2,702	2,555	2,552	2,552
Number of Shareholders *	3,481	3,231	3,400	3,636	3,248	2,642	2,274	2,053	2,040	2,027
Working Capital.....	\$ 7,272	\$ 5,752	\$ 7,360	\$ 8,073	\$ 7,236	\$ 4,892	\$ 1,045	\$ 718	\$ (718)	\$ 12
Long-term Debt.....	7,729	7,834	10,884	9,917	10,495	12,031	11,150	10,105	11,005	12,812
Fixed Assets at Cost.....	33,269	30,932	30,484	27,759	27,050	24,292	23,835	18,934	19,389	18,443
Accumulated Depreciation.....	6,157	5,235	4,395	3,643	2,949	2,370	1,729	1,147	661	663
Fixed Assets (net).....	27,112	25,697	26,089	24,116	24,101	21,922	22,106	17,787	18,728	17,780
Shareholders' Equity.....	24,429	23,102	22,657	22,385	20,892	15,031	12,153	10,919	8,705	8,199
Per Preference Share *	\$ 21.30	\$ 21.30	\$ 21.30	\$ 21.30	\$ 21.30	—	—	—	—	—
Per Common Share *	\$ 7.61	\$ 7.15	\$ 7.02	\$ 6.93	\$ 6.44	\$ 5.49	\$ 4.50	\$ 4.27	\$ 3.41	\$ 3.21

DIRECTORS REPORT

TO THE SHAREHOLDERS

The Board of Directors submits herewith the Annual Report of your Company for the year ended August 31, 1970, together with the financial statements and your auditors' report.

IPSCO recorded the best operating year in the history of the Company in 1970. Records were established in all departments, sales, production and earnings. Dollar sales volume reached a record level of \$26,672,426, an increase of 30% over the previous high of \$20,483,348 established in 1969. Net profit before deferred income taxes amounted to \$3,475,360 as compared to \$1,048,157 in 1969. Production volume reached a record level of 127,784 finished product tons in 1970, an increase of 10% over the 1969 level of 116,494 tons.

The substantial increase in earnings for the year ended August 31, 1970 was due primarily to an improvement in net mill selling prices on tubular products, together with a strong market demand for IPSCO products. The production records set in 1969 were exceeded in all divisions (melt shop, rolling mills and pipe mills). This improvement in production efficiency has assisted in offsetting, to some degree, the continuing trend in increased costs for materials and labour.

During the year under review fixed asset expenditures amounting to \$2,509,697 were carried out to provide increased production in line with market growth. Installation of IPSCO's third electric furnace, which commenced production in May of 1970, assisted in boosting ingot production to a record high of 180,457 tons. The melt shop is currently operating at the rate of 210,000 ingot tons per annum and this will be further increased to a rate of 250,000 ingot tons per annum on completion of two additional soaking pits which are scheduled for completion in February of 1971. The second spiral pipe mill was installed during August of 1970. With two mills available, large diameter pipe capacity is now 96,000 tons per annum as compared with 48,000 tons last year. On November 26, 1970 IPSCO announced a further expansion program designed primarily to increase ingot capacity from the present level of 210,000 ingot tons per annum to 350,000 tons per annum. This program represents a fixed asset investment of \$2,913,500 and IPSCO will receive \$524,430 of this amount (18%) in the form of an Incentive Grant from the Federal Government Department of Regional Economic Expansion.

Last year the Company generated \$4,569,983 from operations and borrowed \$1,020,000 from the bank for a total source of funds of \$5,589,983. The application of these funds included \$2,509,697 expenditures for fixed assets; retirement of long-term debt in the

amount of \$1,124,927; payment of preference share dividends in the amount of \$150,000; payment of common share dividends in the amount of \$285,872 and the balance, \$1,519,487 represents an increase in working capital. As at August 31, 1970 working capital amounted to \$7,271,693 as compared with \$5,752,206 as at August 31, 1969.

Prospects for the current year are most encouraging. Although dollar sales volume in the first quarter, at \$5,979,543 is lower than the record high established for the comparable period in 1970, \$6,815,826, the Company has a strong forward order position which will require a capacity operation in the melt shop through the winter and spring months. Construction programs during the summer of 1971, to increase the capacity of natural gas trunk gathering and transmission lines, will require substantial tonnages of large diameter pipe. On December 10, 1970, IPSCO received an order for 80 miles of 42" diameter API X-65 line pipe. This 38,000 ton order will require a capacity operation of both spiral mills for approximately six months. Recent announcements with regard to increases in the amount of Canadian crude oil imports into the United States market will result in an increase in activity in oil exploration and development drilling in Western Canada. A study by the Canadian Petroleum Association indicates that only about 10% of Canada's ultimate potential petroleum resources have so far been found. The potential for increased reserves and production of petroleum products, when related to the rapidly growing demand for energy resources in both Canada and the United States, indicates that steel and pipe markets through the seventies will remain at the high levels recorded in the sixties.

Research is continuing in the Canadian Arctic to determine operating conditions and product requirements for large diameter oil and gas transmission lines. IPSCO supplied an additional tonnage of 48" diameter high pressure line pipe last year for test programs on natural gas lines at Sans Sault, located on the Mackenzie River halfway between Norman Wells and Fort Good Hope, in the Northwest Territories. Research programs are continuing at the Regina mills to develop higher grades of line pipe which will be required to meet Arctic construction and operating conditions. There is a strong indication that during the seventies, one or two major pipeline systems will be constructed to carry crude oil or natural gas from Alaska and the Canadian Arctic across the Prairies to Eastern Canadian and United States markets. These proposed lines, which will be 48" diameter pipe or larger, represent a potential market for millions of tons of steel and pipe. IPSCO, at the present time, is in a preferred position to meet a part of this substantial market requirement.

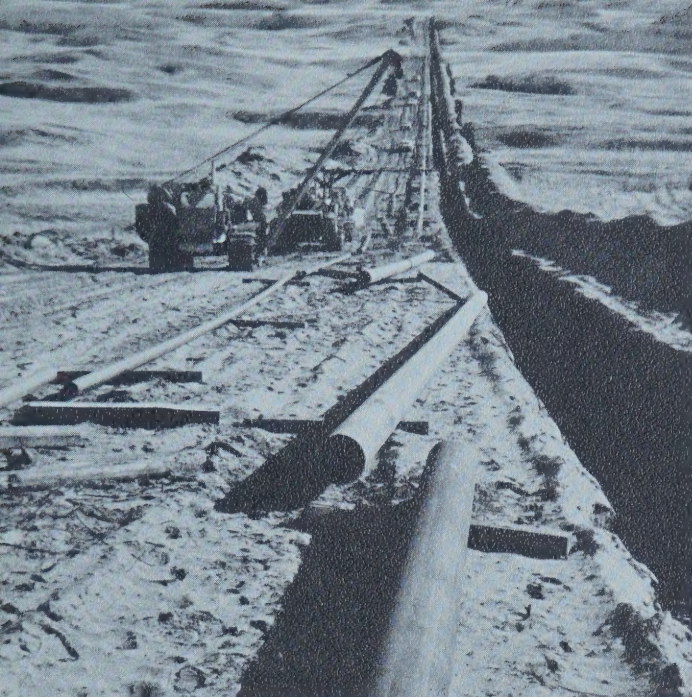
SALES

A record volume of sales was achieved by IPSCO last year. Total dollar sales amounted to \$26,672,426 for the year ended August 31, 1970, an increase of 30% over the previous record high of \$20,483,348 established in 1969. Tonnage sales showed a similar increase to 134,424 tons from 122,397 tons in 1969, representing an increase of 10%. In line with the experience over the last three operating years, sales last year required a capacity operation in the melt shop and semi-finished and in-process inventories were further reduced. Dollar and tonnage sales trends over the last ten years are as follows:

Year Ended August 31	Total Sales Volume		Percentage Change In Dollar Volume Over Previous Year
	Tons	Dollars	
1961	40,030	\$ 7,158,000	—
1962	73,061	10,993,000	+ 54
1963	70,149	12,948,000	+ 18
1964	77,566	13,304,000	+ 3
1965	107,847	17,969,000	+ 35
1966	93,520	17,329,000	— 4
1967	87,096	14,658,000	— 16
1968	95,182	15,515,000	+ 6
1969	122,397	20,483,000	+ 32
1970	134,434	26,672,000	+ 30

IPSCO 48" diameter API X-60 pipe has undergone extensive operational tests near Inuvik in the Canadian Arctic. The test facility, which includes both above ground and buried sections, was constructed to evaluate the feasibility of a 1,600 mile crude oil pipeline from Alaska to Edmonton, following the Mackenzie River valley.





Pipelining in the Lesser Sand Hills in Saskatchewan moves ahead rapidly under ideal weather conditions. IPSCO supplied 100 miles of 10 $\frac{3}{4}$ " diameter API X-52 to this project, which will transport condensate in a 4 $\frac{1}{2}$ " pipeline from Kerrobert to the Lone Rock producing area. The condensate is blended with heavy crude oil and returned in the 10 $\frac{3}{4}$ " diameter pipeline to Kerrobert.

The increase in sales volume last year was assisted by the start-up of IPSCO's third electric furnace in May of 1970. This increase in steel ingot capacity in the fourth quarter of the Company's fiscal year was a major factor in achieving the record sales volume. Sales of tubular products for the year ended August 31, 1970 increased 37% in tonnage volume and 52% in dollar volume over the previous year. Sales of API line pipe in the size range from 2" to 16" diameter increased 52% in tonnage volume and 71% in dollar volume over the previous year. The higher increase in dollar volume as compared to tonnage volume reflects the improvement in line pipe prices during the year under review.

IPSCO's newest product, API large diameter spiral weld pipe, increased 80% in tonnage volume and 101% in dollar volume in 1970 as compared to 1969. The increase in dollar volume greater than tonnage volume is due primarily to the supply of higher API grades of pipe in this product. Most of the large diameter orders supplied last year were for API X-65 pipe, the highest grade in use at the present time. The spiral mill operated at close to capacity throughout the year and installation of the second mill, during August of 1970, was accomplished without disruption to production schedules on the first mill. IPSCO now has a large diameter pipe capacity of 96,000 tons per annum available for current years' markets. Research is continuing into higher grades of large diameter pipe to meet

market requirements and API X-70 has been produced on an experimental basis at the Regina mills.

With the strong demand for line pipe experienced last year, together with the fact that steel ingot capacity was not increased until the fourth quarter, sales of other IPSCO tubular products remained relatively stable. Oil and gas well casing sales were down slightly from 1969 and sales of hollow structural tubing were at the same level as the previous year.

Sales of flat steel products decreased significantly last year, due in part to the availability of steel ingot during the first three quarters plus a reduced demand for sheet and plate experienced last year. This trend was reversed in the last quarter and steel markets have shown a continuing recovery during the first quarter of the current year. This improvement in demand, together with increased production of steel, indicates that sheet and plate sales will return to normal levels during the current year.

Prospects are most encouraging for sales during the current year. Although sales volume for the first quarter of the current fiscal year, at \$5,979,543, is slightly lower than the record high of \$6,815,826 established during the first quarter of 1970, the Company has a strong forward order position which will require a capacity level of operations through the winter and spring months. Net mill selling prices remain firm and recently announced increases in both steel and tubular products prices will reflect in the current year's operations. In November of 1970, price increases were announced by the largest producers of steel and pipe

IPSCO 42" diameter API X-65 pipe was installed last year in a section of the natural gas gathering system in Alberta. Both spiral mills will be operated at capacity for the balance of the current fiscal year against firm orders for large diameter pipe.





IPSCO's steel mill in the foreground is currently undergoing expansion to increase ingot capacity from the present level of 210,000 ingot tons to 350,000 ingot tons per annum. The spiral pipe mills are housed in the building in the mid foreground while the ERW mills are in the building furthest from the main steel plant.

products covering the full range of IPSCO products. Sheet and plate prices were increased by an average of 5% and tubular products were increased by an average of 5.5%, applicable to both eastern and western Canadian markets. Also in November, skelp prices were increased 5% to non-integrated pipe mills in Canada. These increases, introduced by the major steel companies to compensate for increased costs for both materials and labour, will be reflected in IPSCO's net mill selling prices for the balance of the current fiscal year.

The extremely high demand for steel products on a world-wide basis, which was experienced last year, shows signs of easing. For this reason the \$16 per ton "off-shore allowance" on deliveries of sheet and plate from Canadian mills to destinations in British Columbia and Alberta was reinstated in November of 1970. The competition from "off-shore" suppliers of steel products is expected to increase during the current year in the Western Canadian market.

The market for IPSCO products during the current year will continue to be strong. Despite additional ingot capacity it is apparent that markets for IPSCO products will require full utilization of the present capacity of 210,000 ingot tons per annum. Plans are underway to further expand steel capacity during the current year and, if necessary, outside sources of steel will be sought to supplement home production.

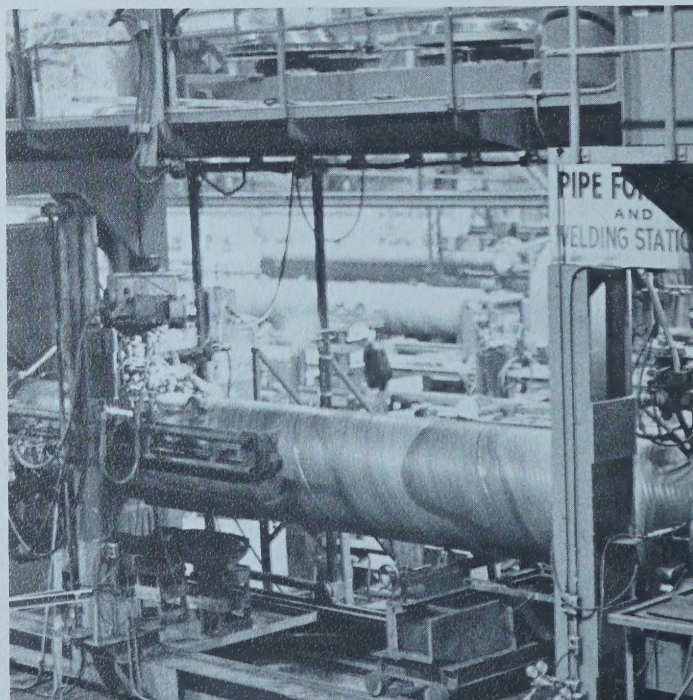
PRODUCTION

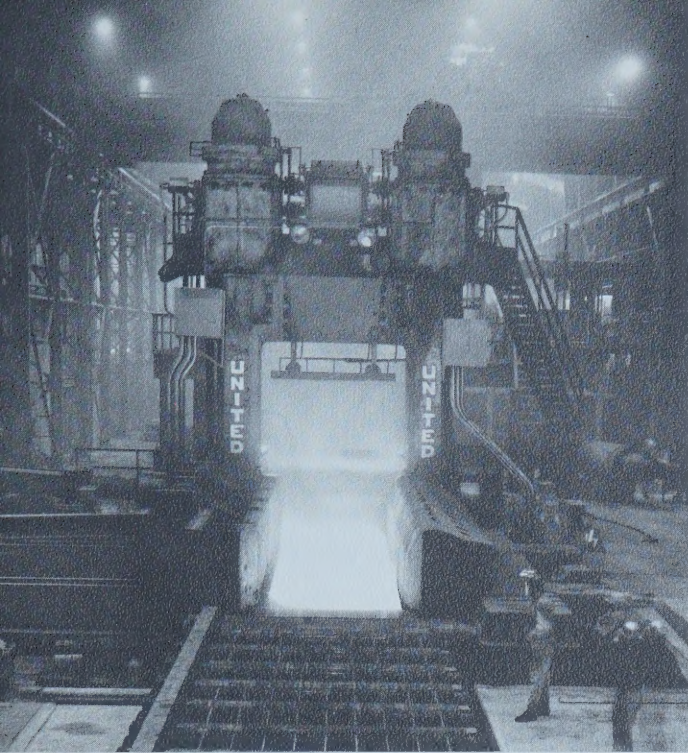
Production of finished products increased 10% during the year under review as compared to 1969. The melt shop capacity was increased from 144,000 ingot tons per annum to 210,000 ingot tons per annum in May of 1970 through the addition of IPSCO's third electric furnace. This increase in capacity, which was available through the fourth quarter of 1970, made possible the record high production of 180,457 ingot tons last year, an increase of 20% over 1969. During the first quarter of the current fiscal year, the melt shop has been operated at the capacity rate of 210,000 tons per annum.

Production of mill edge steel coils, at 145,446 tons was up 9% over the 1969 level of 133,102 tons. Slit skelp, used primarily in the production of small diameter pipe, decreased to 12,545 tons from 36,406 tons in 1969. This decrease in slit skelp resulted from a higher demand for larger diameter pipe which is produced directly from mill edge coils.

Flat rolled products (sheet and plate) totalled 20,290 tons last year, a decrease of 34% from the 1969 production of 30,658 tons. Lack of available steel ingot, together with reduced market demand accounted for this decrease in sheet and plate production. Tubular products, including API from 2" to 16" diameter, large diameter spiral weld, casing, structurals and commercial grade pipe increased 25% in volume of production, from 85,836 tons in 1969 to a record level of 107,494 tons in 1970.

IPSCO's two spiral pipe mills have a capacity of 96,000 tons per annum in the size range from 18" to 80" diameter. In addition to ultra-sonic inspection of the weld area, the entire body of the pipe is ultra-sonically inspected during the production process.





The 2-Hi slabbing mill is used to roll ingots into slabs. This type of mill has maximum flexibility in size range of ingot and a high lift feature which permits edging passes on ingots up to 76 inches wide.

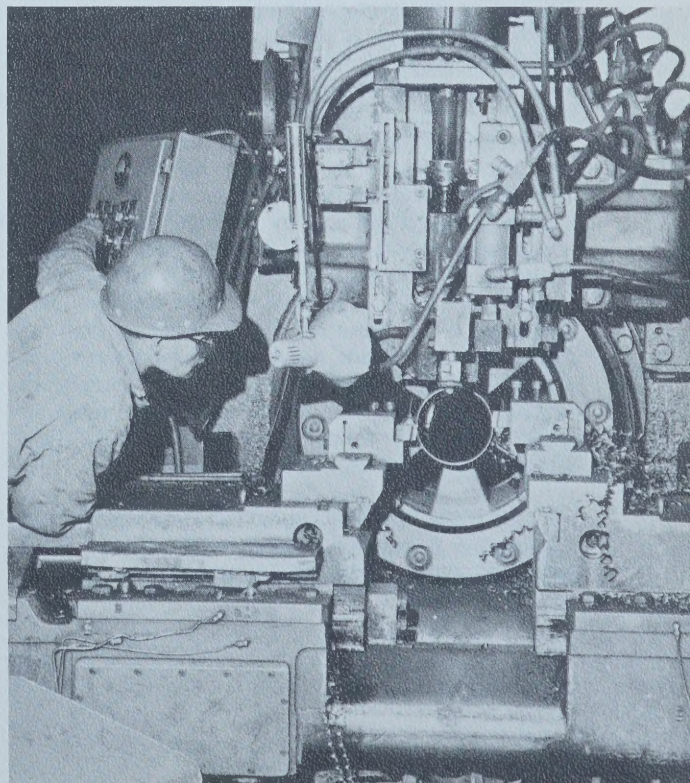
The expansion in ingot capacity, completed last year, to a level of 210,000 tons per annum, will permit greater utilization of IPSCO's rolling and finishing facilities. Last year the rolling mills were operated at 35% capacity and will be utilized at a higher rate during the current year. The sheet and light plate finishing line operated at 20% of capacity last year. The 3" to 16" diameter pipe mill operated at 75% of capacity and the large diameter spiral pipe mill operated at 81% of capacity. The 2" diameter pipe mill was shut down for a period of six months due to lack of steel. The operational level of these facilities is determined by the availability of ingot. Further expansions to melt shop ingot capacity will allow an increase in the utilization of steel and pipe finishing facilities.

Last year the pipe mills at IPSCO produced a record volume of 107,494 tons of tubular products, an increase of 25% over the previous record of 85,836 tons set in 1969. The production of 2" to 16" diameter pipe remained constant, 50,772 tons in 1970 as compared with 50,774 tons in 1969. As previously noted, the 2" diameter pipe mill was not operated for a six-month period due to lack of steel. API spiral weld large diameter production increased by 80% in 1970 as compared to 1969. In September 1970, production commenced on the second spiral pipe mill. This increases the capacity for large diameter pipe from 48,000 tons to 96,000 tons per year and will assist materially in the negotiation of large tonnage orders where delivery requirements are critical.

Production records were established in all major operating departments during the year under review. Increased production efficiencies assisted in offsetting, to some extent, increased costs for both materials and labour. The trend to higher product specifications resulted in an increase in overall production costs during 1970. This is particularly the case with respect to large diameter pipe, where in most orders API X-65 is specified. In addition, continuing research and improvement in product was required to meet specific customer requirements relative to Canadian pipeline conditions. The control available to IPSCO in the melt shop on steel chemistry is an important plus factor in meeting customer requirements. The electric furnace process, together with controlled temperature rolling has resulted in the production of "IPSCO Fine Grain" steel. Last year specialized equipment was installed to provide instant, computerized results on steel chemistry. This valuable quality control equipment is also useful in reducing the amount of time required for steel analysis, thereby increasing melt shop production efficiency.

IPSCO continued to participate in research programs in the Canadian Arctic last year through the supply of 48" diameter spiral weld pipe for use in operational tests on a proposed natural gas pipeline. This is a new research program and is in addition to the tests carried out in 1969 on the transportation of crude oil in a 48" diameter pipeline which was also supplied by IPSCO.

The 3½" to 16" diameter ERW mill operated at 75% of capacity last year. High speed bevellers automatically crop and bevel in a single operation. The machine is also used to produce cut grooves in heavy wall pipe where mechanical couplings are used.



The trend to larger diameter pipelines places IPSCO in an advantageous position in both Canadian and United States markets. The introduction of spiral weld pipe to these markets in grades up to API X-65 in diameters up to 48" has placed IPSCO in a premier position to meet potential requirements during the 1970's. While there is no doubt that other suppliers will install spiral weld mills to meet market demand, the continuing technology on production of large diameter spiral weld pipe by IPSCO will ensure a significant participation in these markets. A continuing program of research and development, in close association with potential large users of this product is desirable to ensure that the advances made over the last several years by IPSCO will not only be maintained, but strengthened.

EXPANSION PROGRAM

Last year fixed asset expenditures totalled \$2,509,697, comprised of the addition of a second spiral pipe mill \$1,255,535, installation of the third electric furnace \$509,700, land acquisition for additional pipe storage \$100,000 and other capital expenditures amounting to \$644,462. The major program, which included the new spiral pipe mill and third furnace installation, overran budget estimates by \$265,235 or 18%. Major reasons for this increase in cost include modifications to initial designs on buildings and equipment, plus unforeseen increases in material costs.

As previously reported in the 1969 Annual Report, the program carried out last year has resulted in an ingot capacity level of 210,000 tons per annum and this can be increased to 350,000 per annum through further expenditures to melt shop auxiliary equipment. Market conditions experienced last year indicated the need for an early decision with regard to a further increase in steel capacity and studies were initiated last summer on this expansion program. This decision was also influenced by the fact that in March of 1970, Regina and surrounding area was included as a specially designated area by the Federal Government and Incentive Grants were available to plant expansions. Therefore, in November of 1970, IPSCO announced a further \$2,913,500 expansion to plant facilities with assistance of an Incentive Grant in the amount of \$524,430. This program, which will be carried out over the 1971-72 fiscal years, will boost ingot capacity to 350,000 ingot tons per annum, extend the range of coiled skelp width from the present 62" to 72" and further expand capacities in the pipe mills.

The program will be carried out in two phases and construction is now in progress under Phase I. Two additional soaking pits are under construction, to

process increased ingot capacity, and these will be completed and in operation by February of 1971. Final design on modifications to melt shop auxiliary facilities are in progress and these expenditures will be undertaken during the current fiscal year. A new method of controlled cooling of steel coils, using the laminar flow process was installed in September and is also included in the Incentive Grant program. In addition to the Grant Funds, which are equivalent to 18% of capital costs, IPSCO proposes to finance the balance of this program through working capital and long-term bank financing. Concurrent with this work, programs have been developed to assure a sufficient supply of raw materials to meet increased steel production.

RAW MATERIALS AND INVENTORIES

A rising trend in scrap prices which began in the spring of 1969 continued throughout the year and reached its peak in February 1970. During this period, the price of #1 Heavy melting scrap in Chicago rose by 96%. This marked increase in prices resulted from a combination of high export demand, low steel mill scrap inventories and reduced supplies of blast furnace iron because of coke shortages and plant breakdowns.

Associated with this general increase the cost of IPSCO's purchased scrap also rose. The impact was less severe, however, than that experienced by many U.S. mills. IPSCO's overall scrap cost increased by only 14%, at a time when record purchases to meet increased steel production resulted in higher freight costs from more distant sources. Scrap supplies at present look more favorable. Prices have moderated (although not back to their early 1969 levels) as export pressure eases and as the level of steelmaking in the U.S. declines.

Planned expansions in IPSCO's steelmaking facilities will require further increases in scrap supplies. Programs have been developed to meet these increased requirements which, to some extent, will increase freight costs because of longer hauling distances.

One of the new sources of scrap developed to meet this increased demand featured an unusual sociological experiment. In conjunction with the Provincial Government, a scrap processing yard was set up on a portion of IPSCO's property manned totally by people of Indian and Metis ancestry. This operation, known as Native Metal Industries Ltd., provides experience in manual, technical and managerial areas besides offering a significant employment opportunity for people who would probably otherwise be unemployed. The company employs close to sixty people and directly supports over three hundred dependents.

Inventories continue to be closely controlled and were reduced to \$8,106,532 from \$8,361,447 in 1969. Coupled with increased sales, the rate of stock turnover increased from 2.44 times in 1969 to 3.15 in 1970.

FINANCIAL

Operations for the year resulted in a profit before depreciation and income tax of \$4,569,983. After providing for depreciation in the amount of \$1,094,623 and deferred income tax of \$1,711,880, the net profit for the year amounted to \$1,763,480. Income tax will not be currently payable since depreciation in excess of the amounts recorded will be claimed for income tax purposes. The profit before deferred income tax is equivalent to \$1.16 per common share and the net profit after deferred income tax is equivalent to \$.56 per common share. Allowance is made in the above calculations for dividends on the preference shares. The percentage of net profit to sales was 6.6% as compared to 2.6% for the year ended August 31, 1969.

The shareholders' equity amounted to \$24,429,401 at August 31, 1970 as compared to \$23,101,793 at August 31, 1969. Equity per common share at the year end amounted to \$7.61 for each common share, with 2,858,730 common shares issued and \$21.30 for each preference share, with 125,000 preference shares issued. During February 1970, a dividend of \$.10 per common share outstanding was paid amounting to a total of \$285,872. On December 4, 1970 a dividend of \$.15 per common share outstanding was paid amounting to a total of \$432,580.

Fixed asset additions amounted to \$2,509,697 which included the addition of a second spiral weld mill and the installation of a third furnace. These expenditures were financed by a long-term bank loan of \$1,020,000 and working capital of \$1,489,697. The ratio of depreciated fixed assets to long-term debt at August 31, 1970 was 3.5 to 1, providing approximately \$3,500 security for each \$1,000 in long-term debt. The following summary shows the comparison of depreciated fixed assets to long-term debt for the past ten years:

Year Ending August 31	Depreciated Fixed Assets	Long-term Debt	Ratio
1961	\$17,779,665	\$11,710,476	1.5 to 1
1962	18,728,154	11,005,000	1.7 to 1
1963	17,786,798	10,105,000	1.8 to 1
1964	22,105,992	11,150,000	2.0 to 1
1965	21,921,580	12,030,563	1.8 to 1
1966	24,100,844	10,495,062	2.3 to 1
1967	24,115,837	9,916,722	2.4 to 1
1968	26,089,343	10,883,819	2.4 to 1
1969	25,697,547	7,833,840	3.3 to 1
1970	27,112,621	7,728,913	3.5 to 1

As at August 31, 1970 the working capital was \$7,271,693, as compared with \$5,752,206 as at August 31, 1969. Operations of the Company, plus the long-term bank loan provided funds of \$5,589,983. These funds were used to purchase fixed assets of \$2,509,697, retirement of long-term debt of \$1,124,927, payment of dividends on preference and common shares of \$435,872 and increase working capital by \$1,519,487. The following is a comparison of the working capital and change in working capital over the past ten years.

Year Ending August 31	Working Capital	Increase or (Decrease)
1961	\$ 11,734	\$(3,745,537)
1962	(717,910)	(729,644)
1963	718,492	1,436,402
1964	1,045,387	326,895
1965	4,892,305	3,846,918
1966	7,236,269	2,343,963
1967	8,072,670	836,401
1968	7,359,920	(712,750)
1969	5,752,206	(1,607,714)
1970	7,271,693	1,519,487

In January of 1970, the initial dividend of ten cents per share was declared on IPSCO common shares. In October of 1970, a further dividend of fifteen cents per share was declared, payable December 4, 1970. Although no formal dividend policy has been established by the Board of Directors, it now appears that long-term debt financing will be available to the Company at more normal interest rates, so the distribution of retained earnings in the form of common share dividends is now possible. However, the re-investment of a substantial portion of retained earnings to sustain the growth of IPSCO is necessary to ensure that the Company keeps pace with growing markets for steel and pipe.

Respectfully submitted on behalf of the Board of Directors.

Regina, Canada,
January 8, 1971.

J. N. TURVEY,
President.

INTERPROVINCIAL STEEL
(INCORPORATED UNDER THE
BALANCE SHEET AS

ASSETS

CURRENT ASSETS

	<u>1970</u>	<u>1969</u>
Accounts receivable	\$ 5,996,585	\$ 4,660,908
Inventories valued at the lower of cost and net realizable value		
Finished products	3,393,298	4,232,013
Work in process	1,143,774	1,334,687
Materials and supplies	3,569,460	2,794,747
Prepaid expenses	263,638	336,133
	<u>14,366,755</u>	<u>13,358,488</u>

FIXED ASSETS at cost

Land (including iron ore property)	367,354	267,354
Pipe plants		
Buildings	1,310,446	970,323
Machinery and equipment	7,967,323	6,857,962
Steel plant		
Buildings	2,878,048	2,830,934
Machinery and equipment	20,746,235	20,005,585
	<u>33,269,406</u>	<u>30,932,158</u>
Accumulated depreciation	6,156,785	5,234,611
	<u>27,112,621</u>	<u>25,697,547</u>

	<u>\$41,479,376</u>	<u>\$39,056,035</u>
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ND PIPE CORPORATION LTD.

OMPANIES ACT OF SASKATCHEWAN)

T AUGUST 31, 1970

LIABILITIES

CURRENT LIABILITIES

	<u>1970</u>	<u>1969</u>
Bank indebtedness Note 1	\$ 2,758,200	\$ 4,191,948
Accounts, payable and accrued	2,899,112	2,269,182
Sales taxes payable	544,810	197,072
Current maturity on long-term debt	830,440	885,580
Dividend payable on preference shares	62,500	62,500
	<u>7,095,062</u>	<u>7,606,282</u>

LONG-TERM DEBT Note 2	<u>7,728,913</u>	<u>7,833,840</u>
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DEFERRED INCOME TAXES Note 3	<u>2,226,000</u>	<u>514,120</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK **Note 4**

Authorized

125,000 \$1.20 cumulative redeemable convertible preference shares
of no par value

5,000,000 common shares of no par value

Issued

125,000 preference shares	2,662,500	2,662,500
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2,858,730 common shares	8,421,967	8,421,967
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RETAINED EARNINGS	<u>13,344,934</u>	<u>12,017,326</u>
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	<u>24,429,401</u>	<u>23,101,793</u>
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Signed on behalf of the Board:

F. E. SHAW, *Director*

J. N. TURVEY, *Director*

	<u>\$41,479,376</u>	<u>\$39,056,035</u>
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INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended August 31, 1970

	<u>1970</u>	<u>1969</u>
SALES	\$26,672,426	\$20,483,348
EARNINGS BEFORE PROVIDING FOR THE UNDERNOTED EXPENDITURES	5,175,309	3,001,021
Interest on long-term debt	478,560	664,507
Discount on purchase of bonds for sinking fund	97,800	46,238
	380,760	618,269
Other interest	206,466	324,010
Directors' fees	18,100	20,447
Depreciation	1,094,623	990,138
	1,699,949	1,952,864
EARNINGS BEFORE INCOME TAXES	3,475,360	1,048,157
Provision for deferred income taxes Note 3	1,711,880	514,120
NET EARNINGS	1,763,480	534,037
(Earnings per common share 1970 \$.56; 1969 \$.13)		
Retained earnings at beginning of year	12,017,326	11,633,289
Dividends		
Preference shares	(150,000)	(150,000)
Common shares	(285,872)	
RETAINED EARNINGS AT END OF YEAR	<u>\$13,344,934</u>	<u>\$12,017,326</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

To The Shareholders
Interprovincial Steel and Pipe Corporation Ltd.

We have examined the balance sheet of Interprovincial Steel and Pipe Corporation Ltd. as at August 31, 1970 and the statements of earnings and retained earnings and source and application of its funds for the year then ended, and have obtained all the information and explanations we have required. Our examination included general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at August 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. In our opinion all the transactions of the company that have come to our notice have been within the objects and powers of the company.

Regina, Saskatchewan,
October 29, 1970.

RIDDELL, STEAD & CO.,
Chartered Accountants.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended August 31, 1970

	<u>1970</u>	<u>1969</u>
SOURCE OF FUNDS		
From operations		
Net earnings	\$ 1,763,480	\$ 534,037
Non-cash charges		
Depreciation	1,094,623	990,138
Provision for deferred income taxes	1,711,880	514,120
	<u>4,569,983</u>	<u>2,038,295</u>
Conversion of debentures		60,978
Long-term bank loan	1,020,000	
Reduction of deferred receivables		91,334
	<u>5,589,983</u>	<u>2,190,607</u>
 APPLICATION OF FUNDS		
Expenditures for fixed assets	2,509,697	598,342
Reduction of long-term debt	1,124,927	3,049,979
Dividends		
Preference shares	150,000	150,000
Common shares	285,872	
	<u>4,070,496</u>	<u>3,798,321</u>
INCREASE (DECREASE) IN WORKING CAPITAL	1,519,487	(1,607,714)
Working capital at beginning of year	<u>5,752,206</u>	<u>7,359,920</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 7,271,693</u>	<u>\$ 5,752,206</u>

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1970

1. BANK INDEBTEDNESS

The bank loans, including the \$1,020,000 payable in U.S. funds shown in long-term debt, are secured by a general assignment of book debts and under Section 88 of the Bank Act. In addition, the bank holds a floating charge on the assets of the company.

2. LONG-TERM DEBT

	<u>1970</u>	<u>1969</u>
First mortgage sinking fund bonds		
5½ % Series A maturing December 1, 1973	\$ 2,842,853	\$ 3,598,602
6½ % Series B maturing August 15, 1985	2,332,000	2,501,000
6½ % Series C maturing August 15, 1985 (U.S. \$1,300,000)	1,326,000	1,458,318
Debentures		
6% Convertible sinking fund maturing December 1, 1974	1,038,500	1,161,500
Loans		
Bank loan, borrowed to finance the construction of the second Spiral Pipe Mill, due subsequent to September 1, 1971 (U.S. \$1,000,000)	<u>1,020,000</u>	<u> </u>
	8,559,353	8,719,420
Sinking fund payments due within one year included in current maturity	<u>830,440</u>	<u>885,580</u>
	<u>\$ 7,728,913</u>	<u>\$ 7,833,840</u>

Estimated sinking fund and loan payments over the next five years are as follows: Years ended August 31, 1971 — \$830,440; 1972 — \$1,196,200; 1973 — \$1,196,200; 1974 — \$1,196,200; 1975 — \$912,400.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1970

3. DEFERRED INCOME TAXES

In accordance with the 1969 recommendations of the Canadian Institute of Chartered Accountants, the company has provided for deferred income taxes of \$1,711,880 on current earnings. These income taxes will not be currently payable as a result of claiming for income tax purposes depreciation in excess of the amounts recorded in the accounts. This accumulated amount is shown on the balance sheet as deferred income taxes. Similar tax reductions in the years prior to 1969, amounting to \$6,339,000, have not been included.

4. CAPITAL STOCK

The following unissued common shares are reserved at August 31, 1970:

(a) Shares for possible issuance upon conversion of the 6% convertible sinking fund debentures at the rate of \$6.30 to November 30, 1974	164,841
(b) Shares for possible issuance upon conversion of the \$1.20 cumulative redeemable convertible preference shares at the rate of three (3) common shares for one (1) preference share convertible at any time up to, but not after, October 1, 1972. These shares are redeemable at the option of the company at \$22.55 per share	375,000
(c) Options granted to the Province of Saskatchewan at \$5.00 per share exercisable up to December 1, 1973	<u>60,000</u>
Total number of shares reserved	<u>599,841</u>

5. COMMON SHARE DIVIDEND

Subsequent to the fiscal year-end, a dividend of \$.15 per common share outstanding has been declared payable December 4, 1970 to shareholders of record November 20, 1970.



TOP LEFT

IPSCO's rolling mills operated at 35% of capacity last year. The two-high slabbing mill, one of the largest of this type in Canada, is used to convert ingot into slab. The slab is transferred in line to the four-high strip mill, which completes the rolling process to coil form. With the addition to ingot capacity, the rolling mills will be operated at a higher level of capacity this year.

TOP CENTER

The production of longitudinal weld pipe at IPSCO is an important product line. The main mill produces 3½" to 16" diameter pipe and a smaller mill produces 2½" diameter pipe. Coiled steel skelp is fed into the mill at speeds up to 100 feet per minute. As the steel passes through the mill it is automatically formed into a tube, welded using the high frequency electric resistance process, normalized and cut to length. Last year the ERW mill operated at 75% of capacity.

TOP RIGHT

Last September a new type of cooling system was installed on the rolling mills at IPSCO. This process, called "Laminar Flow" provides a constant flow of cooling water over both the upper and lower surfaces of the steel as it passes through the cooling bed area of the mills. Improved, controlled cooling techniques, together with the control available in steel chemistry through the use of electric furnaces, results in the consistent production of "IPSCO Fine Grain" steel.

DESCRIPTION OF BACK COVER PHOTOGRAPHS

BOTTOM LEFT

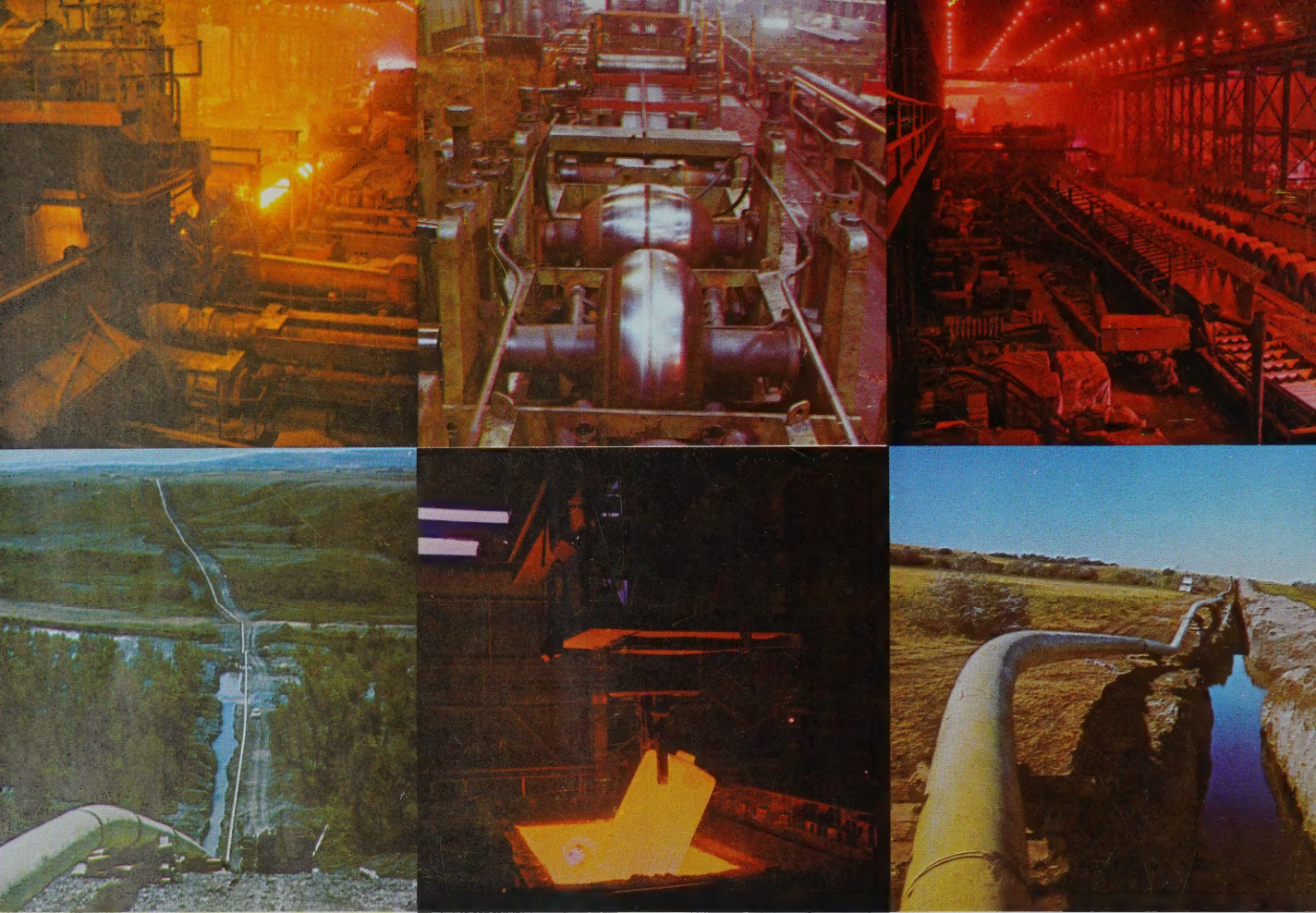
IPSCO line pipe, covering the complete size range from 2" diameter to 80" diameter, reaches across vast areas in both Canada and the United States. Over 20,000 miles of IPSCO line pipe is presently in service and each year growing quantities are supplied for the transmission of oil, natural gas, water and other commodities. Pipeline transportation is now a major factor in materials handling and research into additional uses for this type of transport is continuing.

BOTTOM CENTER

IPSCO is currently adding two new soaking pits which are scheduled for completion in February of 1971. With increased ingot capacity in the melt shop, it was necessary to expand soaking pit capacity to supply re-heated ingots to the rolling mills. The ingots are heated evenly in a controlled atmosphere to a temperature of 2,300° F. in preparation for rolling.

BOTTOM RIGHT

IPSCO is in an advantageous position in servicing Western Canadian line pipe markets. The benefits of an integrated steel and pipe operation, where customers or their designated inspectors can follow the complete manufacturing process from raw material to finished product at one central location, is of particular importance. The development of "IPSCO Fine Grain" steel, a low carbon steel which inherits higher impact values at temperatures to minus 75 degrees Fahrenheit, has broadened the market base for this product.



INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

INTERIM FINANCIAL STATEMENT (unaudited)

For the Six Months
Sept. to Feb.
1970 1969

STATEMENT OF EARNINGS

Sales	\$13,535,987	\$ 7,974,771
Earnings before providing for the undernoted expenditures	\$ 2,946,481	\$ 1,216,246
Interest on long-term debt	\$ 249,775	\$ 347,743
Other interest	129,921	140,985
Directors' fees	10,000	10,200
Depreciation	543,611	578,986
	<u>\$ 933,307</u>	<u>\$ 1,077,914</u>
Net earnings for the period before income taxes	\$ 2,013,174	\$ 138,332
Deferred income taxes	1,008,000	53,000
Net earnings for the period	<u>\$ 1,005,174</u>	<u>\$ 85,332</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds

From Operations:

Net earnings	\$ 1,005,174	\$ 85,332
Deferred income taxes	1,008,000	53,000
Non-cash charges — Depreciation	543,611	578,986
	<u>\$ 2,556,785</u>	<u>\$ 717,318</u>
Bank loan for second spiral pipe mill	215,063	
Conversion of debentures		59,982
	<u>\$ 2,771,848</u>	<u>\$ 777,300</u>

Application of Funds —

Expenditures for plant and equipment	\$ 865,189	\$ 393,102
Reduction in long-term debt	842,994	2,846,116
Dividends on preference shares	75,000	75,000
Dividends on common shares	285,872	
	<u>\$ 2,069,055</u>	<u>\$ 3,314,218</u>
Increase (decrease) in working capital	\$ 702,793	\$ (2,536,918)
Working capital at beginning of period	5,752,206	7,359,920
Working capital at end of period	<u>\$ 6,454,999</u>	<u>\$ 4,823,002</u>



INTERIM REPORT

For the six months
September 1, 1969 to February 28, 1970

← Statement of Earnings

President's Remarks →

Interprovincial Steel and Pipe Corporation Ltd.
Regina, Saskatchewan, Canada

Reference: J. D. MacLennan, v-p finance @ 306-543-5530

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

TO THE SHAREHOLDERS:

Net earnings for the first six months of the current fiscal year, to February 28, 1970, amounted to \$1,005,174 after depreciation and deferred Income Taxes. This compares to net earnings in the first six months of the previous fiscal year, to February 28, 1969 of \$85,332 after depreciation and deferred Income Taxes. The six-months operating results for the current fiscal year are the highest ever recorded in the fourteen operating years of IPSCO. Improved pipe prices, combined with record sales volumes, were the major factors influencing earnings. The half-year earnings, after provision for dividends on preference shares, amount to 33 cents per common share on 2,858,730 shares issued.

Net sales for the first six months of the current fiscal year amounted to \$13,535,987, an increase of 70% over net sales of \$7,974,711 for the same period last year. Sales of the full range of IPSCO line pipe and casing reached record levels during the period under review. Steel sales of sheet and plate also increased and IPSCO's melt shop operated at capacity over the first half of the current fiscal year.

EXPANSION PROGRAM

Work proceeded on schedule over the winter months on IPSCO's \$1,500,000 plant expansion program. The third electric furnace is now installed and the first heat of steel from this facility will be poured on April 28. Initially, due to loading restrictions on the ladle crane, the third furnace will produce at the rate of forty tons per heat, based on a four-hour cycle from charging to pouring. This furnace has a rated capacity of one hundred tons per heat (the largest electric furnace installation in Canada). Modifications are planned in the melt shop teeming area and with the addition of a larger tap crane and additional soaking pit capacity, the level of ingot production can be raised from the present 210,000 ingot tons per annum to 300,000 ingot tons per annum as markets warrant.

The second spiral pipe mill is under construction in Germany and will be completed on schedule. Following completion, the mill will be operated on a test basis in Germany prior to shipment from Hamburg July 15. The spiral mill, on arrival in Regina approximately August 10, will be installed

and tested during August. It is forecast that commercial production will commence by September 1, 1970. This will double large diameter pipe capacity at the Regina mills to a level of 96,000 tons per annum.)

FINANCIAL

The operations of IPSCO for the first half of the current fiscal year generated cash in the amount of \$2,556,785; comprised of net profit of \$1,005,174, deferred income taxes of \$1,008,000 and depreciation (a non-cash charge) of \$543,611. During the same period of the previous year, cash generation amounted to \$717,318; comprised of net profit of \$85,332, deferred income taxes of \$53,000 and depreciation (a non-cash charge) of \$578,986.

Working capital increased sharply in the first half of the current year as compared to the same period a year ago. As at February 28, 1970 working capital amounted to \$6,454,999 an increase of 34% over a working capital figure of \$4,823,002 as at February 28, 1969.)

During the first half of the current fiscal year, expenditures on plant and equipment totalled \$865,189, long-term debt was reduced by \$842,994, dividends on preference shares were paid in the amount of \$75,000 and an initial dividend of ten cents per share was declared on IPSCO common shares, requiring a disbursement of \$285,872. Total application of funds during the first half of the current fiscal year amounted to \$2,069,055.

PRICES AND COSTS

Pipe prices in the 2"-16" diameter range remained relatively stable following a 7% increase in June of 1969. Sheet and plate prices were increased by 7% in November of 1969, reflecting increased production costs throughout the steel industry. In the case of pipe prices, line pipe prices in Western Canada are still 14% below the 1965 level of prices, despite increased costs for both materials and wages. For this reason a further increase in 2"-16" line pipe prices can be rationalized within the terms of reference of the Prices & Incomes Commission.

RAW MATERIAL SUPPLY & PRICE

The supply of steel scrap, within economic shipping distance to Regina, is more than adequate to meet the increased requirements resulting from installation of the third furnace. For the balance of the current fiscal year, scrap supplies will be drawn from traditional sources of supply. Next year a minor percentage will be drawn from United States sources in the Chicago area to supplement normal supply sources.

Following several months of unusually high scrap prices in the United States, prices are now easing back to normal levels. The reason for higher scrap prices was due to an unprecedented world demand for scrap and very high levels of export shipments of scrap to foreign countries from the United States. Because of IPSCO's geographical location and relatively low volume in relation to total steel scrap generated, it has been possible to hold the average delivered price within a relatively small range in prices.

Several new methods have been introduced this year in both purchasing and preparing of steel scrap. This was carried out in anticipation of increased demand for this material and will assist in stabilizing scrap prices over the long term.

FUTURE OUTLOOK

IPSCO completed the first half of the current fiscal year by establishing the highest level of half-year sales volume and earnings in its history. In addition, it had the strongest forward order position in its history at the half-year point. Orders presently on the books will require a capacity level of operations for the balance of the fiscal year, including increased steel capacity from the third furnace. This level of sales volume results primarily from increased activity in the oil and gas pipeline industries in Canada. Based on applications by all of the major gas transmission companies (including a new company which proposes an entirely new system from Alberta to Minnesota) presently being considered by the National Energy Board, pipe markets will continue strong through the 1970's. In addition, test work in the Canadian Arctic on operating conditions for transmission of both oil and gas in 48" diameter pipelines along the Mackenzie River Valley could result in the creation of an enormous demand for large diameter pipe over the next ten years. IPSCO has prepared itself for this market and participated in this research program through supply of the 48" line pipe last year and will be supplying additional pipe during July.

J. N. TURVEY,
President.

April 24, 1970.